

FY 2021-22 Proposed Budget



Finance Committee Meeting

April 15, 2021



Principles Guiding Development of the Budget

Budget Emphasizes:

- Providing high quality municipal services that residents expect
- Providing a safe and secure neighborhood
- Keeping Newport Beach looking great
- Maintaining a prosperous, fiscally sustainable, and economically viable city

Additional Focus:

- Restoring budget cuts made due to the COVID-19 Pandemic
- Addressing key City Council priorities identified at the January 30, 2021, City Council Planning Session

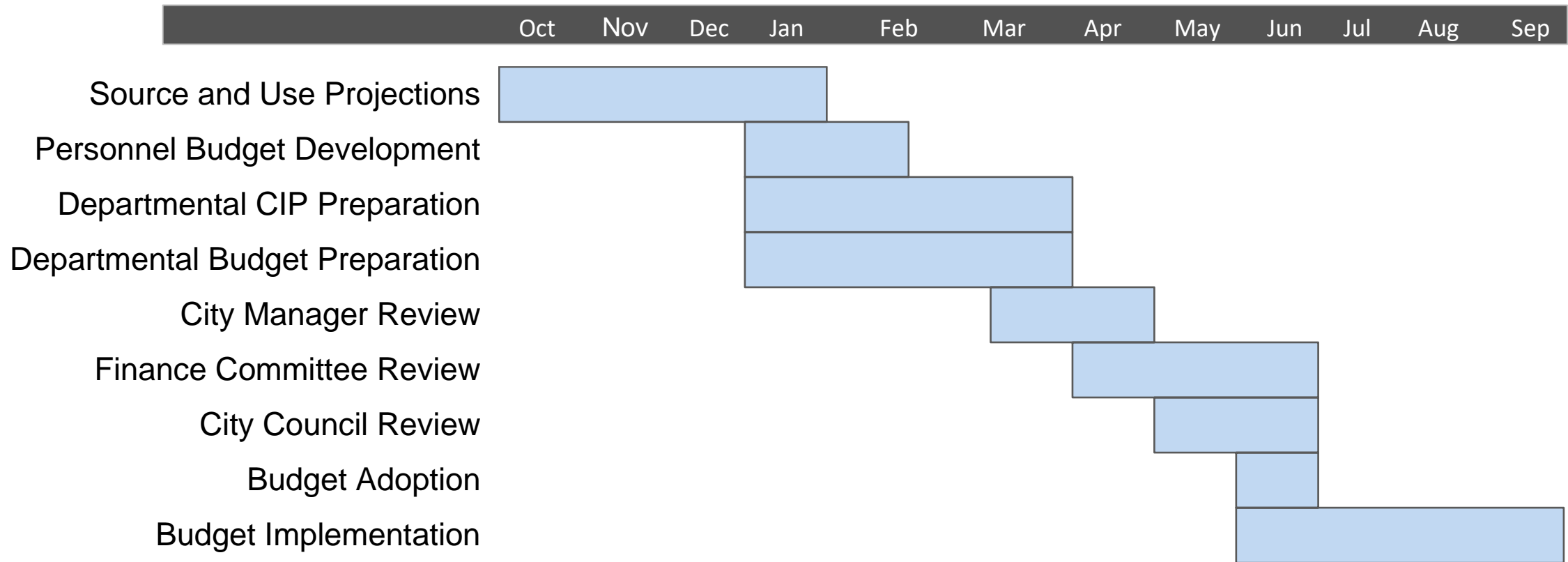


Straight to the Point: Key Messages

- A strong budget surplus is still projected for FY 2020-21
- The FY 2021-22 budget is balanced
- Parallel action will restore as needed the remaining reductions to the FY 2020-21 budget
- Property tax revenue continues growth at a steady pace
- Sales tax and transient occupancy tax revenues remain on a strong recovery trajectory
- Proposed expenditures remain relatively flat, with additional funding allocated to key City Council priorities
- Continued strategy of allocating \$35 million to reducing the unfunded pension liability, with additional funding allocations likely at year-end
- Continued funding of capital improvement projects, including neighborhood enhancement projects, with additional funding allocations likely at year-end



Budget Development Timeline





Opportunities for Public Review of the Budget

Date	Meeting Type	Meeting Purpose
Saturday, January 30, 2021	Special City Council Meeting	City Council Planning Session
Thursday, February 18, 2021	Finance Committee Meeting	Long-Range Financial Forecast (LRFF) update
Tuesday, March 9, 2021	City Council Study Session	Early look at Capital Improvement Program
Thursday, March 11, 2021	Finance Committee Meeting	Review of revenue budget assumptions
Thursday, April 15, 2021	Finance Committee Meeting	Review of proposed budget
Tuesday, May 25, 2021	Joint City Council / Finance Committee Study Session	Joint review of proposed budget
Thursday May 27, 2021	Finance Committee Meeting	Finalize recommendations to City Council
Tuesday, June 8, 2021	City Council Meeting	Public hearing and adoption of budget

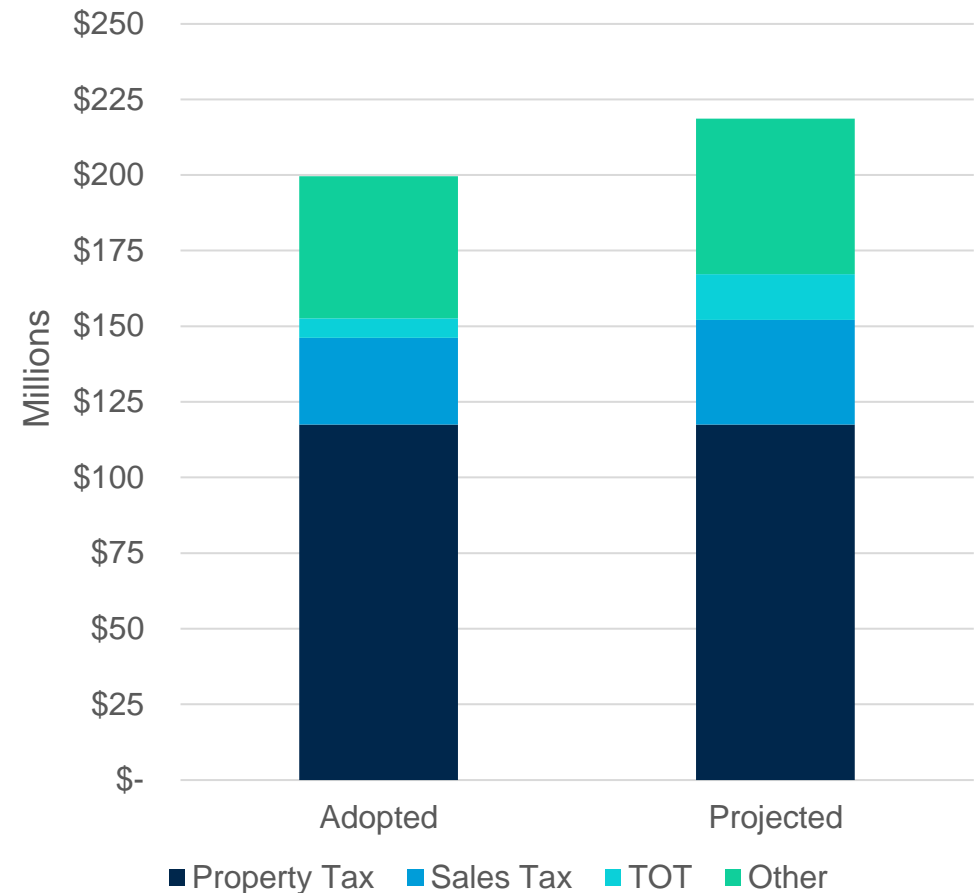


Updated FY 2020-21 Budget Information



Recap of Second Quarter Budget Update

- Positive revenue variance of \$17.2 million
- \$0.5 million of projected expenditure savings
- \$17.7 million net improvement
- Still under the historical trendline
- \$27.5 million of projected excess reserves
- \$30.2 of budget cuts not yet restored
- Preliminary third quarter projections show sustained improvement in revenues
- Staff will be recommending restoration of all appropriate remaining budget reductions





Tiered Budget Balancing Framework

- \$33.0 million of reductions approved
- \$2.8 million of reductions restored in the first quarter
- \$4.8 million of tier 1 and tier 2 reductions in spending achieved
- \$16.9 million of reductions recommended for restoration
- Restoration of the remaining \$8.6 million of reductions is not required

	Tier 1 Operating Cuts	Tier 2 Temporary Hiring Freeze	Tier 3 Deferred Capital	Tier 4 ISF Charge Reductions	Tier 5 Contingency Reserve	Tier 6 Service Level Cuts	Total
Professional and Contract Svcs.	\$ 1,621,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,621,760
Other Non-Personnel Budgets	1,136,807	-	-	-	-	-	1,136,807
Personnel Services	-	2,000,000	-	-	-	-	2,000,000
Transfers Out	-	-	18,477,137	500,000	-	-	18,977,137
Capital Budgets	-	-	2,500,000	-	-	-	2,500,000
Insurance	-	-	-	2,000,000	-	-	2,000,000
Equipment Replacement	-	-	-	2,500,000	-	-	2,500,000
Contingency Reserve Draw	-	-	-	-	2,304,399	-	2,304,399
Total	\$ 2,758,567	\$ 2,000,000	\$ 20,977,137	\$ 5,000,000	\$ 2,304,399	\$ -	\$ 33,040,103
Cuts Restored in First Quarter	-	-	-	(500,000)	(2,304,399)	-	(2,804,399)
Cuts To be Restored							
Transfer to FFP	-	-	(8,500,000)	-	-	-	(8,500,000)
Transfer to Harbor Capital	-	-	(4,500,000)	-	-	-	(4,500,000)
General Fund CIP	-	-	(1,537,060)	-	-	-	(1,537,060)
Neighborhood Enhancement	-	-	(2,339,014)	-	-	-	(2,339,014)
Restoration Not Required	(2,758,567)	(2,000,000)	(4,101,063)	(4,500,000)	-	-	(13,359,630)
Remaining Cuts in Place	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



Tiered Budget Balancing Framework

Restoration of \$16.9 Million

- \$8.5 million contribution to Facilities Financial Plan (FFP)
- \$4.5 million contribution to Harbor CIP
- \$1.5 million of General Fund CIP
- \$2.3 million of Neighborhood Enhancement projects

Restoration Not Required of \$8.6 Million

- \$4.1 million of CIP projects that are not ready to move forward
- \$2.0 million of fund balance returned from insurance funds
- \$2.0 million of fund balance returned from information technology fund
- \$500,000 contribution to facilities maintenance plan

With these restorations, all FY 2020-21 budget reductions will be addressed.



Budget Overview



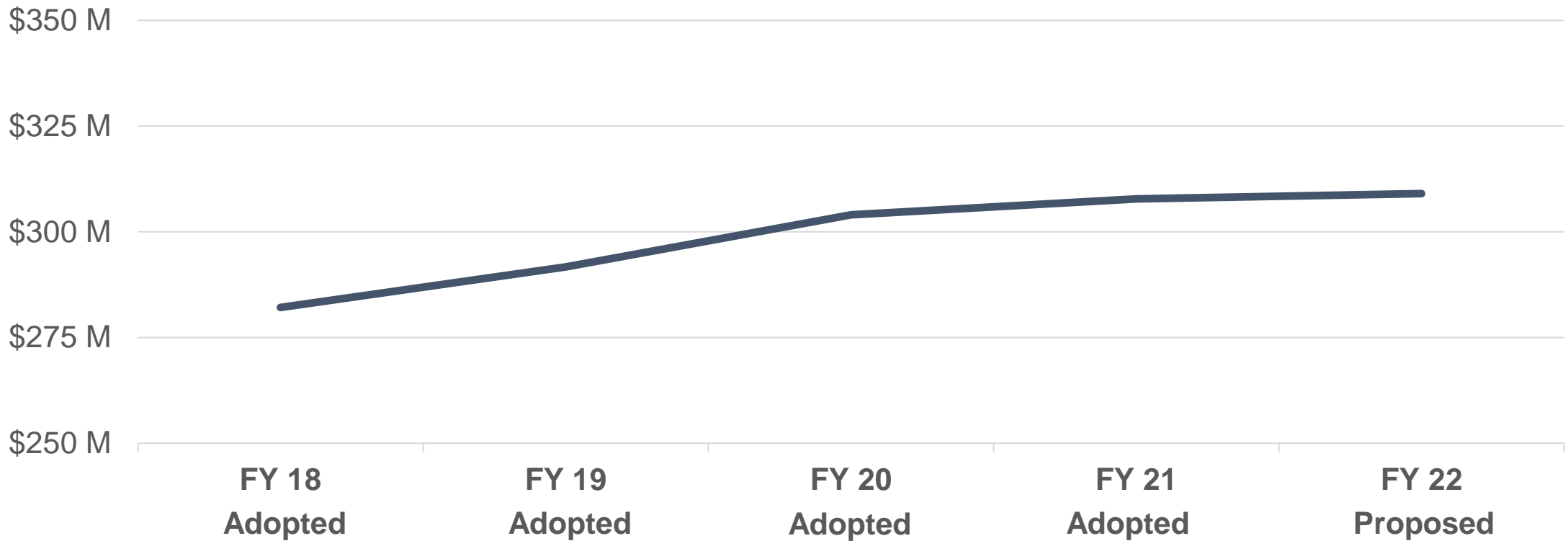
Summary of All Funds - Expenditures

- Minimal growth in operating expenditures of 0.40%
- Routine fluctuations in capital spending
- 1.58% growth in overall budget

	FY 18 Adopted	FY 19 Adopted	FY 20 Adopted	FY 21 Adopted	FY 22 Proposed	% Variance
Operating Budget	\$ 282,068,157	\$ 291,709,382	\$ 304,005,215	\$ 307,759,024	\$ 309,002,305	0.40%
CIP New Appropriations	25,724,200	46,807,906	45,686,890	31,377,224	35,506,078	13.16%
Total Budget	\$ 307,792,357	\$ 338,517,288	\$ 349,692,105	\$ 339,136,248	\$ 344,508,383	1.58%

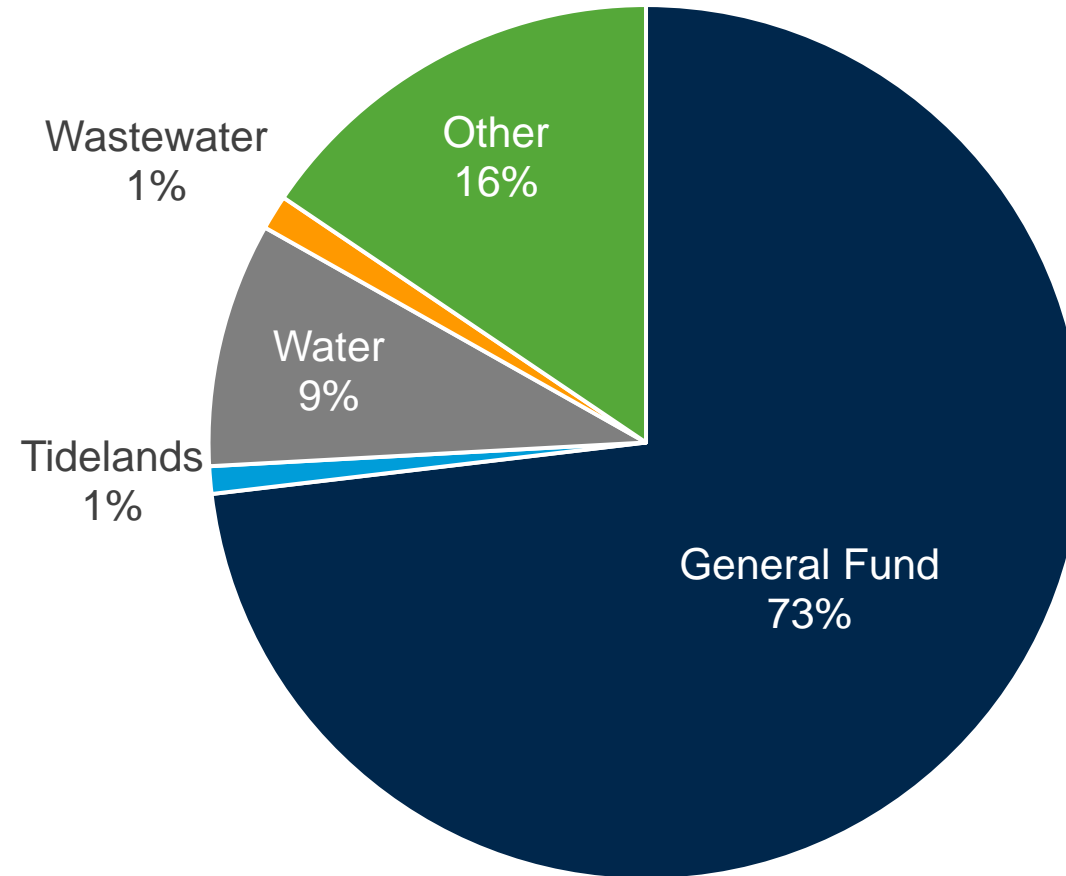


All Funds Operating Expenditures Trend





Expenditures by Fund





Major Fund Operating Expenditures

- Minimal growth in operating expenditures of 0.40%
- General Fund growth under 3%, including program enhancements

	FY 18 Adopted	FY 19 Adopted	FY 20 Adopted	FY 21 Adopted	FY 22 Proposed	% Variance
General Fund	\$ 202,757,357	\$ 208,745,822	\$ 219,111,935	\$ 219,859,038	\$ 225,851,633	2.73%
Tidelands	3,138,803	3,299,157	2,544,989	2,955,080	3,136,238	6.13%
Water	22,606,550	24,669,005	26,584,151	27,969,925	27,933,241	-0.13%
Wastewater	3,592,976	3,824,712	3,966,734	4,284,105	3,956,840	-7.64%
Other	49,972,471	51,170,686	51,797,406	52,690,876	48,124,354	-8.67%
Total Operating Budget	\$ 282,068,157	\$ 291,709,382	\$ 304,005,215	\$ 307,759,024	\$ 309,002,306	0.40%



CIP Investment in Infrastructure and Facilities

- Fluctuations in capital spending are routine
- Nearly \$75 million budgeted for continued capital investment
- All routine General Fund transfers in support of capital spending have been restored

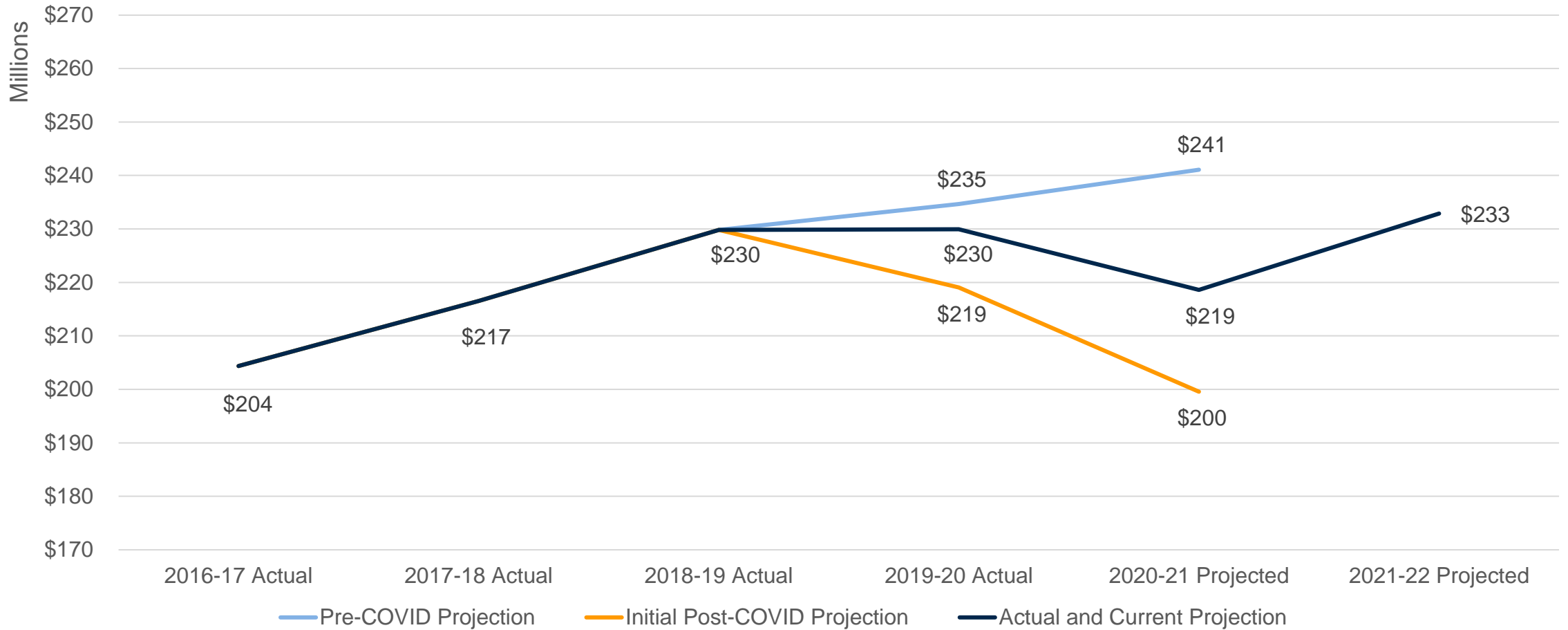
	FY 18 Adopted	FY 19 Adopted	FY 20 Adopted	FY 21 Adopted	FY 22 Proposed	% Variance
CIP New Appropriations	\$ 25,724,200	\$ 46,807,906	\$ 45,686,890	\$ 31,377,223	\$ 35,506,078	13.16%
CIP Estimated Rebudgets	35,194,809	30,757,550	47,562,633	55,774,942	39,341,387	-29.46%
Total Budget	\$ 60,919,009	\$ 77,565,456	\$ 93,249,523	\$ 87,152,165	\$ 74,847,465	-14.12%



General Fund Budget Overview

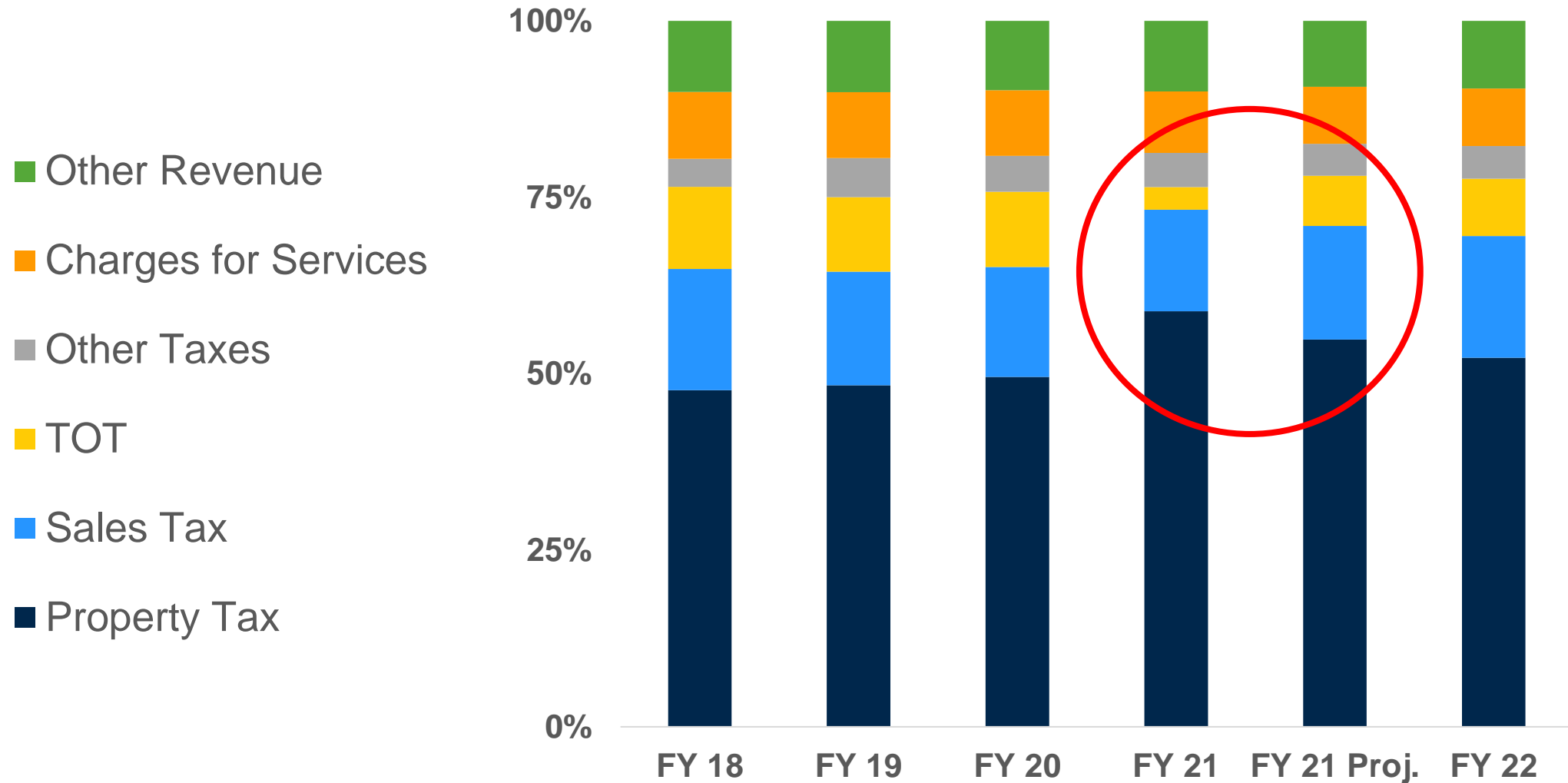


Historical General Fund Revenues





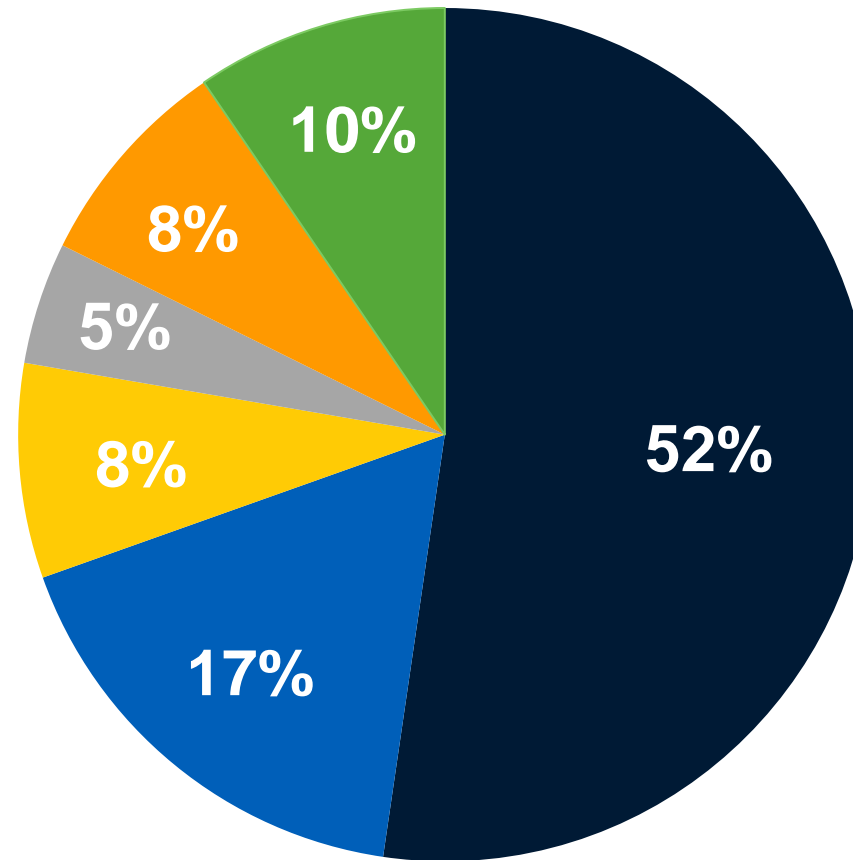
General Fund Revenue





General Fund Revenue (in millions)

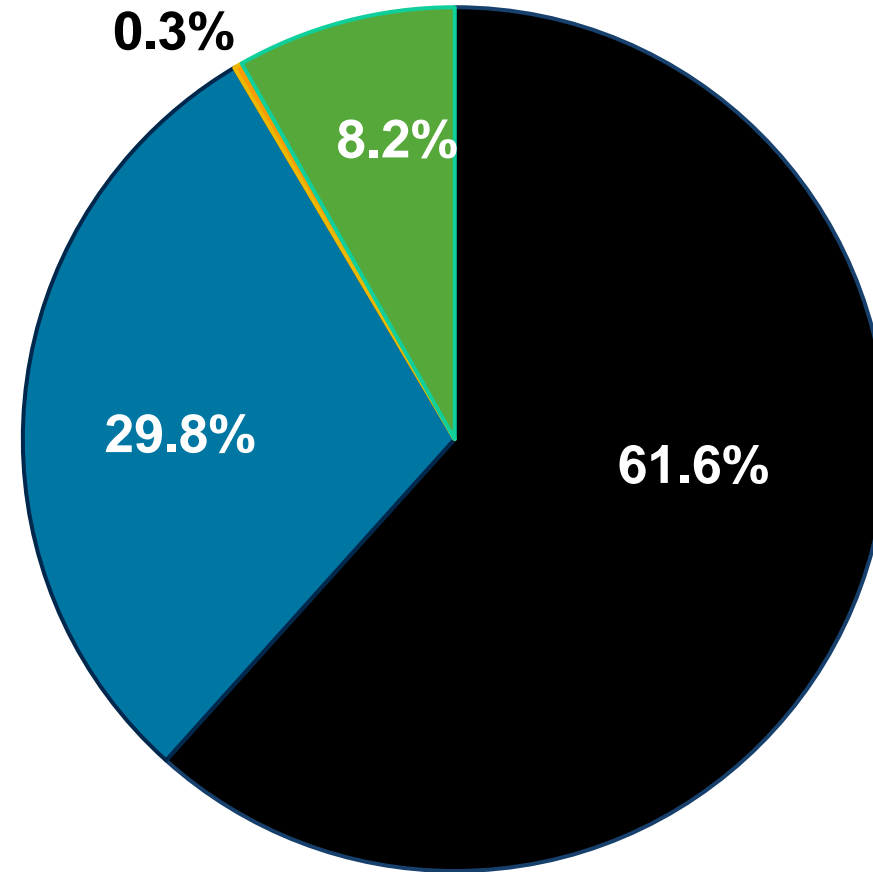
- Property Taxes \$122.2
- Sales Tax \$40.3
- Transient Occupancy Tax \$19.0
- Other Taxes \$10.8
- Charges for Services \$19.0
- All Other Sources \$22.3





General Fund Expenditures (in millions)

- Salaries & Benefits \$151.7
- Maintenance & Operations \$73.4
- Capital Outlay \$0.8
- Transfers \$20.2



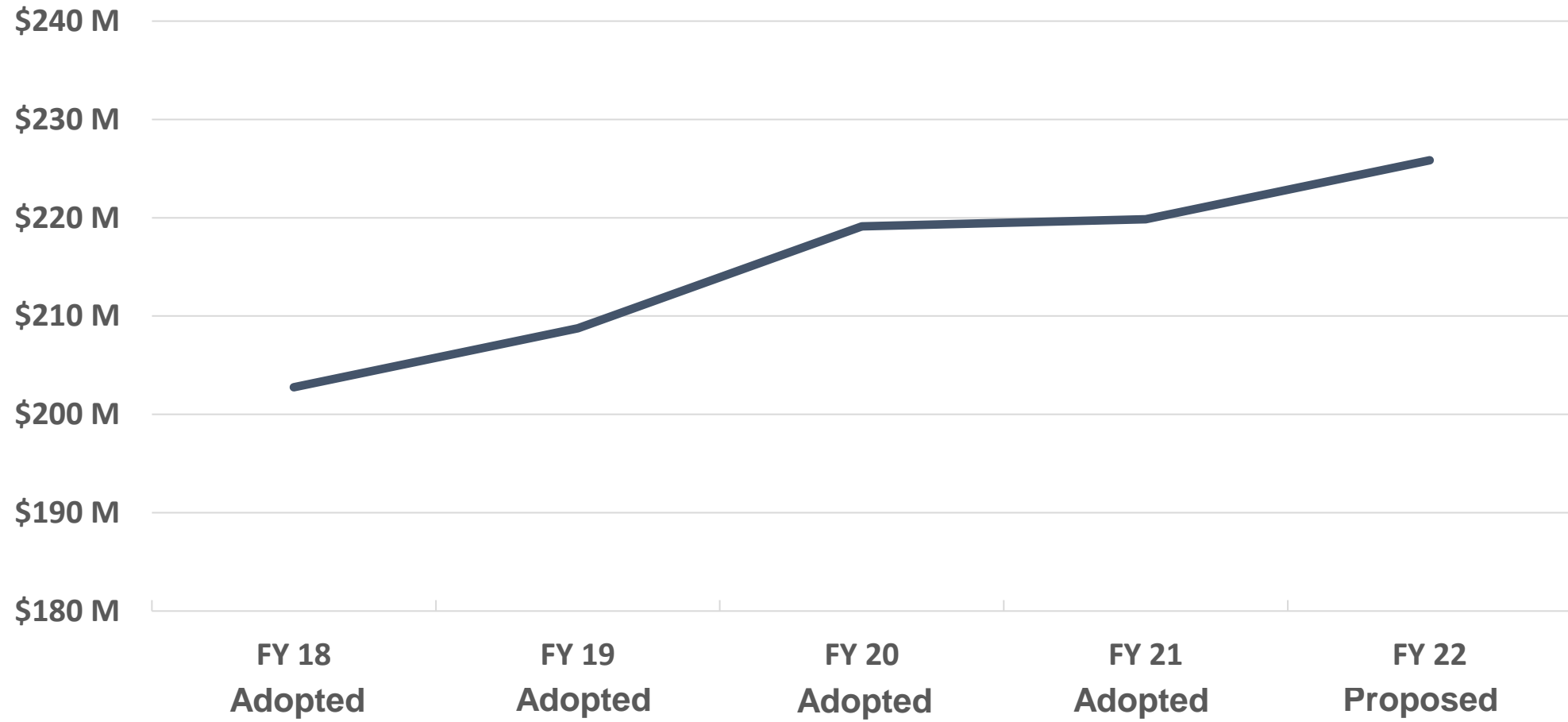


General Fund Expenditures by Department

	FY 18 Adopted	FY 19 Adopted	FY 20 Adopted	FY 21 Adopted	FY 22 Proposed	% Variance
Police	60,632,280	62,627,537	66,040,641	67,002,345	67,401,926	0.60%
Fire	48,353,522	50,514,086	53,193,484	54,790,911	55,861,885	1.95%
Public Works	34,323,356	35,774,140	38,255,532	37,274,177	41,193,237	10.51%
Recreation and Senior Services	13,549,465	13,624,221	13,853,165	13,325,836	13,360,496	0.26%
Community Development	12,616,114	12,834,324	12,952,728	12,525,476	12,772,405	1.97%
Finance	9,070,922	9,157,560	9,461,368	9,573,969	9,667,618	0.98%
Library	8,638,644	9,021,784	9,265,651	9,559,849	9,655,108	1.00%
Utilities	4,164,163	4,336,136	4,759,656	5,033,549	5,144,631	2.21%
City Manager	3,112,978	3,022,380	3,344,155	3,543,321	4,571,940	29.03%
Human Resources	3,130,353	3,142,478	3,293,238	3,423,267	3,448,725	0.74%
City Attorney	2,526,908	2,593,143	2,623,784	2,708,230	2,725,458	0.64%
City Clerk	1,043,415	1,131,339	1,065,439	1,206,539	1,080,305	-10.46%
City Council	1,008,533	834,796	881,199	848,125	841,003	-0.84%
Misc Non Op	586,704	131,896	121,896	1,043,444	126,896	-87.84%
Vacancy Factor	-	-	-	(2,000,000)	(2,000,000)	0.00%
	<u>\$ 202,757,357</u>	<u>\$ 208,745,820</u>	<u>\$ 219,111,935</u>	<u>\$ 219,859,038</u>	<u>\$ 225,851,633</u>	<u>2.73%</u>



General Fund Operating Expenditures Trend





General Fund Transfers

- All routine General Fund transfers in support of capital spending have been restored
 - 800 MHz Radio Fund transfer no longer required

	FY 18 Adopted	FY 19 Adopted	FY 20 Adopted	FY 21 Projected	FY 22 Proposed	% Variance
General Fund CIP	\$ 5,397,520	\$ 5,525,000	\$ 5,220,000	\$ 5,000,000	\$ 5,000,000	0.0%
Facilities Financing Plan (FFP)	8,500,000	8,500,000	10,020,333	8,500,000	8,500,000	0.0%
Harbor & Beaches Capital Plan	6,000,000	4,000,000	5,500,000	4,500,000	4,500,000	0.0%
Facilities Maintenance Plan (FMP)	1,000,000	1,000,000	2,500,000	1,000,000	1,500,000	50.0%
800 MHz Radio Fund	500,000	534,000	500,000	-	-	-
Other One-Time Transfers *	400,000	5,350,000	8,159,919	2,200,000	700,000	-68.2%
Total	\$ 21,797,520	\$ 24,909,000	\$ 31,900,252	\$ 21,200,000	\$ 20,200,000	-4.7%

* FY 22 amount is a transfer out of the Oceanfront Encroachment Reserve

Note: Some transfers prior to FY 21 were funded from year-end surplus.



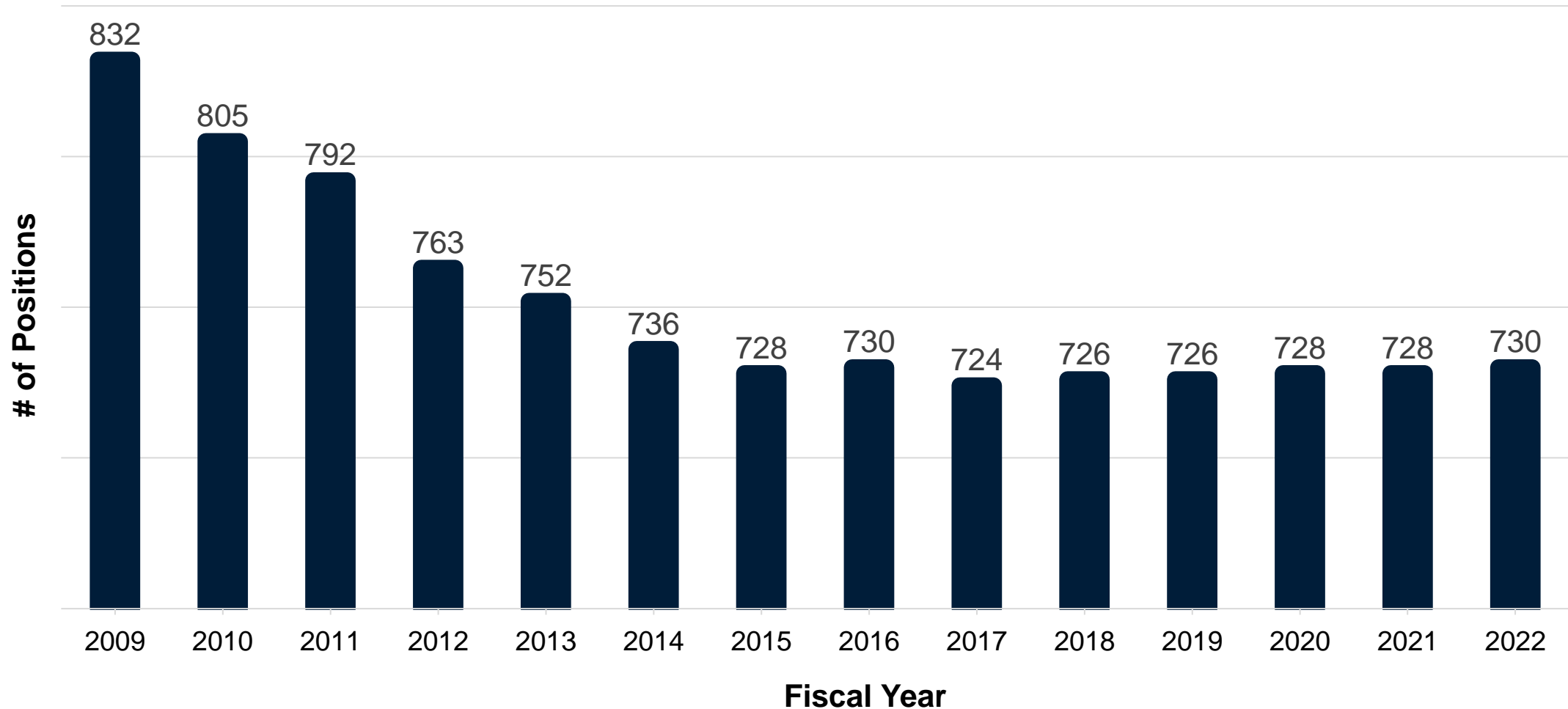
Internal Service Fund Charges

- Increase in vehicle replacement charges to recommended level of funding
- Decrease in insurance charges to draw down excess fund balance

	FY 18 Adopted	FY 19 Adopted	FY 20 Adopted	FY 21 Adopted	FY 22 Proposed	% Variance
Information Technology	5,756,155	5,964,619	7,149,139	7,232,902	7,307,210	1.03%
Vehicle Replacement	2,778,697	2,906,655	2,906,655	3,420,827	4,084,061	19.39%
Equipment Replacement	2,838,467	2,853,036	3,086,604	3,351,330	3,330,552	-0.62%
Insurance	6,822,155	9,992,921	11,224,997	11,225,000	8,961,000	-20.17%
OPEB	8,085,678	3,834,916	3,852,251	4,924,163	4,924,163	0.00%
Compensated Absences	2,509,457	2,549,427	2,625,002	2,669,045	2,713,272	1.66%
Total	\$ 28,790,610	\$ 28,101,574	\$ 30,844,648	\$ 32,823,267	\$ 31,320,257	-4.58%



Changes in Full-Time Staffing 2009-2020





Five-Year Staffing Detail

	FY 18 Adopted		FY 19 Adopted		FY 20 Adopted		FY 21 Adopted		FY 22 Proposed	
	F/T	FTE	F/T	FTE	F/T	FTE	F/T	FTE	F/T	FTE
General Fund										
City Clerk	4.00	2.71	5.00	1.00	5.00	1.00	5.00	1.00	5.00	1.00
City Attorney	7.00	1.00	7.00	1.00	7.00	1.60	7.00	1.60	7.00	1.60
City Manager	6.50	1.00	6.00	1.50	6.00	1.30	6.00	1.30	6.00	1.30
Human Resources	11.00	0.50	11.00	0.50	11.00	1.25	11.00	1.25	11.00	1.25
Finance	32.50	3.02	32.00	4.26	32.00	4.55	33.00	4.55	33.00	4.55
Police	229.00	13.43	231.00	14.87	232.00	14.87	232.00	14.87	232.00	14.87
Fire	143.10	41.42	143.90	42.17	143.90	43.12	143.80	43.12	143.80	42.56
Community Development	49.90	4.10	50.10	8.37	50.10	10.22	49.20	10.20	50.20	10.20
Library	36.00	22.83	36.00	22.83	36.00	22.83	36.00	22.83	36.00	22.83
Recreation and Senior Services	42.50	36.86	42.00	37.96	42.00	38.00	42.00	38.00	42.00	39.43
Public Works	92.50	4.08	90.50	5.08	85.50	5.68	85.50	5.67	85.50	9.47
Utilities	1.00	-	1.00	-	9.50	-	9.50	-	9.50	-
Total	655.00	130.95	655.50	139.54	660.00	144.42	660.00	144.39	661.00	149.06
Other Funds	70.00	9.84	70.50	11.46	68.00	13.79	68.00	15.73	69.00	15.23
Grand Total	725.00	140.79	726.00	151.00	728.00	158.21	728.00	160.12	730.00	164.29



Staffing Changes and Program Enhancements



Proposed Additional Staffing

- Harbor Department
 - Full-time Permit Technician
- Community Development
 - Full-time Senior Civil Engineer position to replace contract staffing (offset by reduction)
- Public Works
 - 3.0 part-time Maintenance Aides to replace contract staffing (mostly offset by reduction)
 - 0.3 part-time Associate Engineer for utility undergrounding projects
- Recreation and Senior Services
 - 1.43 part-time FTEs approved during FY 2020-21 for the Marina Park Community Boating Program



Key General Fund Program Enhancements

- Anticipated refuse / recycling contract increase and related additional revenue included in the base budget and not listed as a program enhancement
 - Net General Fund impact of \$1.5 million
- \$500,000 General Fund commitment to the Costa Mesa Homeless Shelter
 - 20 beds allocated to Newport Beach in a 5-year agreement
 - Capital contribution of \$1.6 million funded from Affordable Housing Reserve and Hoag Development Agreement
 - Remaining funding this year coming from accumulated funds from the Hoag 10-year contribution of \$300,000 per year
 - Some additional ongoing funding will be required in future years



Key General Fund Program Enhancements

- \$200,000 for the Police Department's Boardwalk Ambassador Program
 - Two 2-person teams, including a supervisor, staffed through Community Service Corporation (CSC), which is a private contractor with boardwalk safety experience
 - Staffed seven days per week in the Summer and Saturdays and Sundays during the rest of the year with staff that are highly visible, approachable, and professionally uniformed
 - Focus is to improve the quality of life for residents and visitors to the peninsula by ensuring compliance with the municipal code and boardwalk safety rules
 - Patrolling E Street to 36th Street, including the Balboa and Newport Piers
 - Provide friendly advice, guidance, and directions to visitors in need of assistance
 - The goal of the program is to provide additional presence and visibility on the boardwalk to augment the PET, HLO, and Area 1 Patrol deployments



Key General Fund Program Enhancements

- \$123,760 for additional after hours and weekend contract hours for Code Enforcement
 - Funding for seven days per week from July to September and four days per week for the rest of the fiscal year
 - Goal is to augment City staff at times when additional enforcement is required
- \$107,463 for a full-time Permit Technician in the Harbor Department
 - Will provide support and technical assistance for permittees
 - Enhanced focus on recordkeeping including inspections, registration, and insurance
 - Will add a subject matter expert to the Department in these areas
 - Will free up the Code Enforcement Supervisor's time for enforcement activities



Summary of Recommended Enhancements

Fund	Department	Item Description	Net Budget Impact
General Fund	City Manager	Costa Mesa Homeless Shelter Operating Costs	500,000
	Police	Boardwalk Ambassador Program	200,000
	Community Development	Increase Code Enforcement Contract Staffing	123,760
	Various	Miscellaneous Personnel Budget Changes	266,261
		Miscellaneous Non-Personnel Budget Changes	129,887
		Total General Fund	1,219,908
Tidelands	Harbor	Full-Time Permit Technician	107,463
Water	Utilities	Camera / Security Upgrade at Big Canyon Reservoir	40,000
		Total Other Funds	147,463
		Total FY 22 Program Enhancements	1,367,371



General Fund Reserves and Surplus



General Fund Sources and Uses

- Two FY 21 transfers in
- Drawdown of excess operating reserves in FY 21
 - Tier restorations
 - Contingency Reserve growth

SOURCES:

Beginning Unrestricted Fund Balance
 Operating Revenues
 Less: Restricted Revenues
 Prior Year Resources Carried Forward
 Transfers In from Other Funds

TOTAL SOURCES

USES:

Operating Expenditures
 Transfers Out
 Appropriations from Excess Operating Reserves
 Addition to 25% Contingency Reserve

TOTAL USES

ENDING UNRESTRICTED RESOURCES

FY 20 Actual	FY 21 Q2 Projection	FY 21 Adjusted	FY 22 Proposed
\$ 23,119,513	\$ 24,081,225	\$ 24,081,225	\$ 8,646,269
229,953,017	218,605,517	218,605,517	233,731,142
(2,785,622)	(765,967)	(765,967)	(1,128,513)
-	2,095,632	2,095,632	-
17,207,099	19,160,543	19,888,810 ¹	13,197,157
267,494,007	263,176,950	263,905,217	254,446,055
211,066,539	227,513,609	227,513,609	225,851,633
32,346,243	8,200,000	8,200,000	20,200,000
-	-	16,876,074 ²	-
-	-	2,669,266 ³	-
243,412,782	235,713,609	255,258,949	246,051,633
\$ 24,081,225	\$ 27,463,341	\$ 8,646,269	\$ 8,394,422

¹ CIOSA and 800 MHz fund balance.

² Previously discussed restoration of budget reductions.

³ Required increase to 25% Contingency Reserve due to growth in FY 22 budget.



Proposed General Fund Surplus Allocation

- Historically year-end surplus funds have been held over until the end of the fiscal year for allocation
 - Staff propose shifting this discussion to September – October after the books are closed
 - Allows for more timely utilization of excess resources, including for purposes outlined in City Council Policy F-5
- The projected \$8.6 million year-end surplus is likely to grow with typical budget savings
- Staff are recommending two allocations at this time
 - \$1.0 million toward the Permanent Supporting Housing Project (remaining \$2.0 million to be funded by development agreements and/or affordable housing funds)
 - \$650,000 toward the General Plan update
- Decisions would be made in September – October regarding additional funding toward the City's unfunded pension liability and neighborhood enhancement projects / infrastructure consistent with City Council Policy F-5



Proposed General Fund Surplus Allocation

	Near Term Improvements	Long-Term Obligations	Total
Available Unrestricted Resources			\$ 8,646,269
Fund Now:			
Permanent Supportive Housing	\$ 1,000,000	\$ -	\$ 1,000,000
General Plan Update	650,000	-	650,000
Business Tax Waiver Program	251,847	-	251,847
Total to be Funded Now	1,901,847	-	1,901,847
			-
Fund Later:			
Unfunded Pension Liability Contribution	-	3,372,211	3,372,211
Neighborhood Enhancements / Infrastructure	-	3,372,211	3,372,211
Total to be Funded Later	-	6,744,422	6,744,422
Total Allocation	\$ 1,901,847	\$ 6,744,422	\$ 8,646,269
Remaining Unrestricted Resources			\$ -



What's Not Included: Federal Funds

- The City expects to receive approximately \$9.3 million from the \$130.2 billion allocated to cities and counties in the American Rescue Plan
 - Significantly smaller allocation than many of our neighbors due to the allocation methodology, which is based on the CDBG allocation formula
- Funds will be received over two fiscal years, with half expected before the end of the current year in June
- Very limited guidance is available at this time regarding eligible uses
- Staff expect that the entire amount can be transferred to the General Fund as an offset to revenue losses, but this will depend on the definition of revenue losses in the finalized guidance
- Staff is not recommending any action regarding utilizing the funds until the finalized guidance is available



Unfunded Pension Liability



Accelerated PERS Payment History (All Funds)

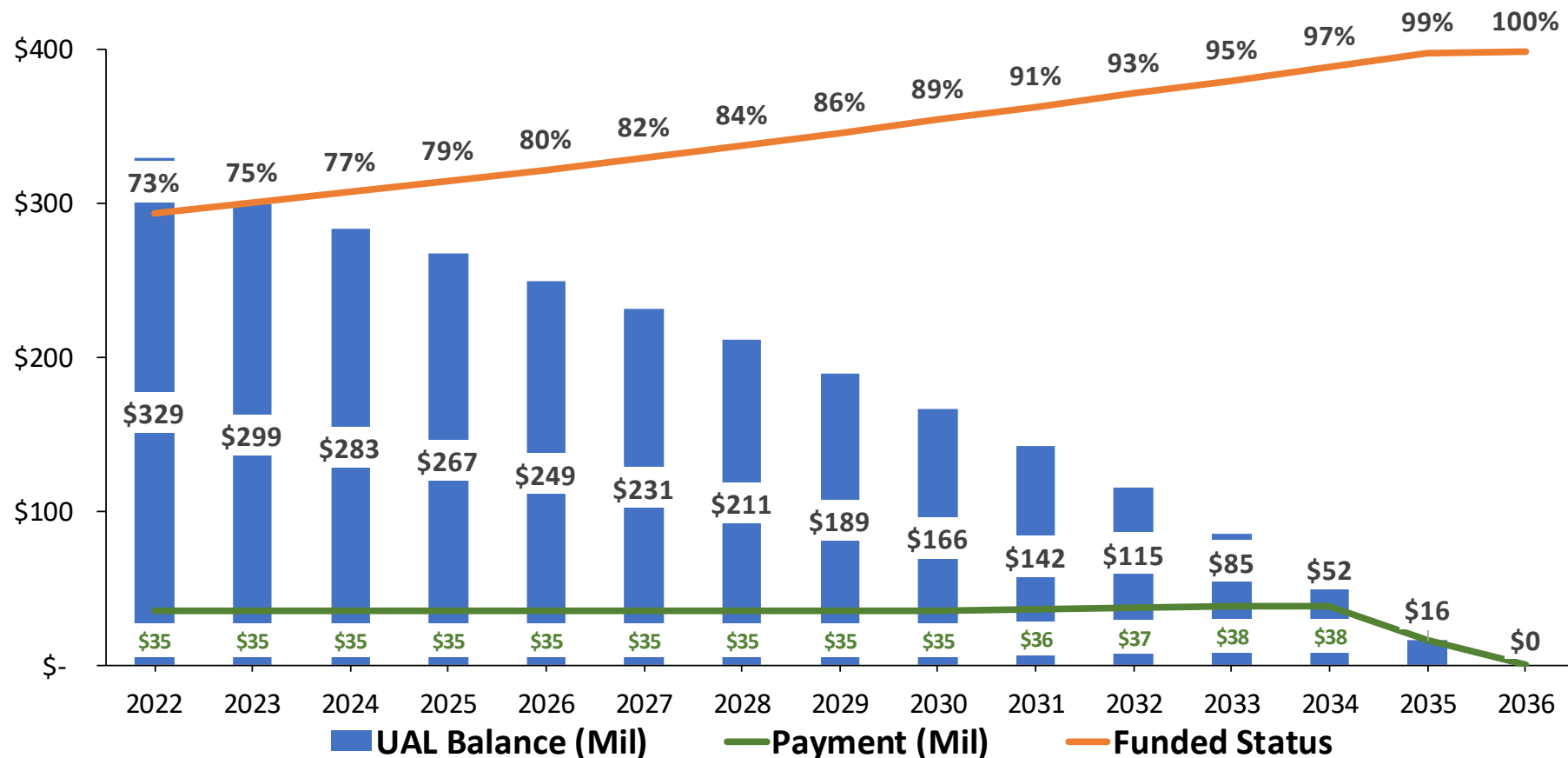
- Maintain \$35 million minimum contribution
- Consider additional contribution toward CalPERS investment loss mitigation from budget surplus as part of year-end results report

Minimum Payment
Base Annual Discretionary Payment
CalPERS Investment Loss Mitigation
Total Planned UAL Payment

FY 2018 Actuals	FY 2019 Actuals	FY 2020 Actuals	FY 2021 Revised	FY 2022 Proposed
\$24,959,949	\$25,569,840	\$26,196,003	\$29,078,448	\$30,029,330
8,914,622	8,930,159	8,803,997	5,921,552	4,970,670
-	-	-	5,000,000	TBD
33,874,571	34,499,999	35,000,000	40,000,000	35,000,000



Impact of Continued \$35 Million Payments



Source: CalPERS Pension Outlook Overview tool
Assumed 7% investment return



Recap: Key Messages

- A strong budget surplus is still projected for FY 2020-21
- The FY 2021-22 budget is balanced
- Parallel action will restore as needed the remaining reductions to the FY 2020-21 budget
- Property tax revenue continues growth at a steady pace
- Sales tax and transient occupancy tax revenues remain on a strong recovery trajectory
- Proposed expenditures remain relatively flat, with additional funding allocated to key City Council priorities
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Questions?